

**REPORT OF THE AUDIT OF THE  
BREATHITT COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BREATHITT COUNTY SHERIFF**

**For The Year Ended  
December 31, 2004**

The Auditor of Public Accounts has completed the Breathitt County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$5,572 from the prior year, resulting in excess fees of \$11,665 as of December 31, 2004. Revenues increased by \$15,770 from the prior year and expenditures increased by \$21,342.

#### **Report Comments:**

- The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement
- The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were not fully insured and collateralized by bank securities or bonds by \$96,140.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	5
COMMENTS AND RECOMMENDATIONS .....	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lewis H. Warrix, Breathitt County Judge/Executive  
Honorable John L. Turner, Breathitt County Sheriff  
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Breathitt County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Lewis H. Warrix, Breathitt County Judge/Executive  
Honorable John L. Turner, Breathitt County Sheriff  
Members of the Breathitt County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Breathitt County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 2, 2005



BREATHITT COUNTY  
JOHN L. TURNER, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grant		
Equipment/Overtime Grant Receipts	\$	4,525
State Grants		4,100
State - Kentucky Law Enforcement Foundation Program Fund		15,378
State Fees For Services:		
Finance and Administration Cabinet	\$	24,896
Cabinet For Human Resources		8,451
		<hr/> 33,347
Circuit Court Clerk:		
Fines and Fees Collected		1,349
Fiscal Court		50,300
County Clerk - Delinquent Taxes		2,931
Commission On Taxes Collected		108,185
Fees Collected For Services:		
Auto Inspections	\$	2,900
Accident/Police Reports		94
Serving Papers		17,318
CCDW		2,235
Add-on Fees		17,582
Transporting Prisoners		6,245
Miscellaneous		7,725
		<hr/> 54,099
Interest Earned		266
Borrowed Money:		
State Advancement	\$	45,000
Bank Note		15,000
		<hr/> 60,000
Total Revenues	\$	<hr/> 334,480

The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY  
 JOHN L. TURNER, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries \$ 154,218

Employee Benefits-

Employer's Share Social Security 13,817

Employer's Share Retirement 2,756

Contracted Services-

Advertising 1,220

Vehicle Maintenance and Repairs 4,584

Materials and Supplies-

Office Materials and Supplies 1,725

Uniforms 2,798

Other Charges-

Equipment/Overtime Grant Expenditures 4,525

Summons 128

Postage 39

Fiscal Court Ordinance 4,330

Bond 787

CCDW 1,095

Miscellaneous 2,558

Transporting Prisoners 142 \$ 194,722

Debt Service:

State Advancement \$ 45,000

Notes 15,000

Interest 47 60,047

Total Expenditures

254,769

Net Revenues

\$ 79,711

Less: Statutory Maximum \$ 64,953

Less: Training Incentive Benefit 3,093

68,046

Excess Fees Due County for 2004

\$ 11,665

Payments to Fiscal Court - December 31, 2004

11,665

Balance Due Fiscal Court at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY  
JOHN L. TURNER, COUNTY SHERIFF  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BREATHITT COUNTY  
JOHN L. TURNER, COUNTY SHERIFF  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$96,140 of public funds uninsured and unsecured.

BREATHITT COUNTY  
 JOHN L. TURNER, COUNTY SHERIFF  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2004  
 (Continued)

Note 3. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,300,000
Uncollateralized and uninsured	<u>96,140</u>
Total	<u><u>\$ 1,496,140</u></u>

Note 4. Asset Forfeiture Fund

The Breathitt County Sheriff's office received proceeds from a court order and established an Asset Forfeiture Fund. These funds are to be used for law enforcement expenses. The beginning balance in the Asset Forfeiture Fund totaled \$360. Receipts were \$ 613 and expenditures were \$245 for 2004. The balance in the Asset Forfeiture Fund balance as of December 31, 2004 was \$728.

Note 5. Purdue Pharmaceutical Technologies, Inc., Grant

The Breathitt County Sheriff's office was awarded a grant from Purdue Pharmaceutical Technologies, Inc. The purpose of the grant was to help fight the unlawful diversion and abuse of prescription drugs throughout the Breathitt County area. The beginning balance was \$9,987. The Sheriff received an additional \$1,099 and expended \$10,087 for 2004. All funds were expended for their intended purpose. The ending balance as of December 31, 2004 was \$999.

Note 6. Equipment/Overtime Grant

The Breathitt County Sheriff's Office received a \$5,000 grant from the Commonwealth of Kentucky Justice Cabinet. The purpose of the grant was to provide funds to Breathitt County Sheriff's department to purchase law enforcement equipment and pay overtime. The beginning balance was \$ 4,964. Receipts were \$13 and expenditures totaled \$4,525 for 2004. The balance as of December 31, 2004 was \$452.

THIS PAGE LEFT BLANK INTENTIONALLY

## COMMENTS AND RECOMMENDATIONS





BREATHITT COUNTY  
JOHN L. TURNER, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement

---

On December 9, 2005, \$96,140 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the depository institution pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*Taken care of, a letter was written to the bank.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*OK*

BREATHITT COUNTY  
JOHN L. TURNER, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lewis H. Warrix, Breathitt County Judge/Executive  
Honorable John L. Turner, Breathitt County Sheriff  
Members of the Breathitt County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Breathitt County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated November 2, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Breathitt County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Breathitt County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Depository Institution Should Have Provided Sufficient Collateral As Required By The Written Agreement

This report is intended solely for the information and use of management, the Breathitt County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 2, 2005

